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Kato, Weinberger Review Technology Transfers

Koichi Kato, director general of the Japan Defense Agency (JDA), and Defense Secretary Caspar Weinberger met in Washington last week to review mutual security efforts and discuss acceleration of Japan's self-defense programs. The meeting came as JDA completed work on the five-year defense program for fiscal 1986-90, expected to be submitted for cabinet approval by mid-July.

Mr. Kato was confident that the country would fulfill its goal of defending the sealanes approaching Japan to a distance of 1,000 nautical miles and said that the new five-year plan reflected that objective. He urged Mr. Weinberger to brief Japanese officials on certain advanced systems, including ultra-long-range over-the-horizon radar, the Aegis missile system and E2C early

Japan's ODA Disbursements Reach Record Levels

Preliminary data released by the Foreign Ministry indicate that Japan's official development assistance (ODA) in 1984 reached a record level of $4.3 billion, an increase of almost 15 percent over the previous year. This makes Japan the second-largest ODA donor after the United States among Organization for Economic Cooperation and Development (OECD) member states. The share of Japan's gross national product devoted to ODA now stands at 0.35 percent, up from 0.32 percent in 1983. There are indications, however, that the target figures set by the government for ODA increases for 1981-85 will be almost impossible to reach (see table).

Japan's Net ODA Disbursements in 1984*

(in millions of dollars)

	1981	1982	1983	1984	Percent Increase 1983-84
Bilateral ODA	$2,260	$2,367	$2,425	$2,427	0.1%
Grants	810	805	993	1,064	7.2
Capital Assistance	432	412	535	543	1.5
Technical Assistance	378	393	458	521	13.8
Development Lending and Capital	1,450	1,562	1,432	1,363	-4.8
Multilateral ODA	911	656	1,336	1,891	41.5
Grants	n.a.	260	306	257	-16.0
Capital Subscription and Payments	n.a.	401	1,035	1,638	58.3
Concessional Lending	n.a.	-5	-4	-4	**
Total	3,171	3,023	3,761	4,319	14.8
Percentage of GNP	0.28%	0.29%	0.33%	0.35%	

*Preliminary data.
**Not calculable.

Source: Ministry of Foreign Affairs

Tokyo's large increase in multilateral assistance continued for a second year, boosted primarily by a 58.3 percent rise in capital subscriptions and contributions to international organizations. Bilateral ODA outlays, on the other hand, remained almost identical to 1983 levels; increases in bilateral grants and technical assistance were offset by a steady drop in development lending and capital. The delayed recovery of developing countries from the recession and high U.S. interest rates seem to be at least partially responsible for the drop in lending.

Japan will probably be unable to reach its goal to double 1981-85's ODA over previous ODA spending levels. To reach the five-year target figure of $21.36 billion by the end of fiscal year 1985 (March 31, 1986) would require an estimated $7.09 billion in assistance this fiscal year, an increase of 64 percent over 1984 expenditures. The FY 1985 budget, however, shows an increase of only 10 percent in ODA (see JEI Report No. 11B, March 22, 1985). If expenditures are calculated in yen terms, Japan's projected ODA spending for 1981-85 will be almost double the amount spent in the previous five-year period, but in dollar calculations, total outlays will represent only about 78 percent of the doubling target.

The ODA program for 1981-85 also commits Tokyo to match the average percentage of gross national product spent on aid by the 17 member nations of the Development Assistance Committee of the OECD. Japan's 0.35 percent-of-GNP ratio marks a steady move toward the 0.37 percent OECD average.

Development assistance and defense were among the only sectors to escape funding cuts during this year's budget battles -- a reflection of the high priority the Nakasone administration places upon approaching the goals of the 1981-85 ODA program. The Foreign Ministry has indicated that a new long-term ODA program, now in the planning stage, will stress qualitative improvements in development assistance disbursements.

Sheri Hoptman

June Financial Affairs

The Ministry of Finance (MOF) continues to make strides toward integrating Japan into international financial markets by implementing a second round of structural changes. Although they face new competitive pressures, Japanese financial institutions are so enthusiastic about the changes that they continue to clamor for faster deregulation. MOF, however, remains committed to the step-by-step approach adopted in last year's yen-dollar agreement. Meanwhile, the yen has failed to appreciate against the dollar, irking American officials. The changes do offer foreign financial firms more access to Japan's financial world, a small consolation to the Reagan administration.

The yen continues to be buffeted by conflicting forces: a mounting trade surplus ($4.1 billion in April, with analysts predicting a 1985 trade surplus on a balance of payments basis in the neighborhood of $50 billion); an equally large net long-term capital outflow ($5.6 billion in April); a narrowing real interest rate gap between Japan and foreign markets; and weakness in both the U.S. and Japanese economies in recent months. On balance, the yen has been rising slowly against the greenback. May's Y251.44=$1.00 average was slightly better than April's Y251.69=$1.00 average rate (based on the median daily rate on the Tokyo interbank spot market). The yen continued to gain ground in the first half of June, averaging Y249.53=$1.00. Most analysts attribute this strength to slower U.S. growth and the Federal Reserve Board's discount rate cut. Japanese investors, however, continue to pour money into U.S. treasury bonds. While this demand for dollars will tend to keep the yen depressed, MOF's regulatory changes should lead to a counterbalancing increase in demand for the yen.

conclusion that the Japanese bill satisfies both tests at its present stage," the panel found; "however, we also recognize that the Japanese bill is not as specific as the U.S. legislation and that implementing regulations will be important in determining how the law will work in Japan." The one-year term will allow sufficient time for the Ministry of International Trade and Industry to draft and apply pertinent regulations, as well as provide for a review of Japan's legislation as urged by the Semiconductor Industry Association. Furthermore, because Tokyo has been making good faith efforts since the enactment of the SCPA, the effective date of the order was made retroactive to November 8, 1984. If Tokyo's legislation and implementation prove satisfactory, the president can issue a permanent proclamation granting reciprocal rights. If problems crop up, Tokyo has until November 8, 1987 to come up with an acceptable system.

The Patent Office has initiated two other inquiries into interim protection at the request of the Australian and British governments. These two countries merit careful attention because they have adopted existing copyright laws as the appropriate domain for IC mask works, an approach at odds with the U.S. law, which establishes a sui generis domain. Nevertheless, Mr. Quigg is considering granting temporary protection in view of the fact that both countries offer foreign applicants equal treatment and protection similar to the SCPA. In the meantime, Mr. Quigg's order will allow Japanese companies to at least enter applications for IC designs developed after July 1, 1983, although it is unclear if the Copyright Office can act on them before the July 1, 1985 deadline. In any case, Japanese mask works that are successfully registered during the one-year interim period will be valid regardless of the administration's final decision on Japan's protection system.

Jon Choy

U.S. Semiconductor Makers File Trade Complaint Against Japanese Rivals

Hard times are again rocking the cyclical U.S. semiconductor industry. Orders have been on the skids since late last summer when computer makers began cutting back new bookings and canceling existing ones. With no signs of a turnaround in sight, analysts have repeatedly trimmed projections of 1985 shipments, now certain to fall far short of last year's record. Semiconductor houses have laid off thousands of workers, instituted shorter work weeks for remaining employees, mothballed wafer fabrication facilities, and halted new building programs in an effort to contain the damage to their bottom lines, which are being pinched by rampant price cutting in memory chips and weakening prices for other devices as well as by the order slide.

The slump gripping U.S. semiconductor manufacturers has given new life to the industry's dormant campaign for legal action against Japanese semiconductor suppliers. During the last semiconductor business bust, Motorola Inc. and some other leading merchant makers lobbied hard for an industry-backed antidumping complaint charging Japanese exporters with "buy-in" pricing in the American market for 64K random access memories (RAMs) (see JEI Report No. 30A, August 12, 1983). This bid, rejected in March 1982 by the Semiconductor Industry Association's (SIA) deeply divided board of directors, was quietly shelved when the American memory market took off in the spring of 1982. It was

replaced by a new campaign, also spearheaded by Motorola, to counter the alleged effects of Japanese government-industry targeting of the semiconductor business. This effort to win industry support for an unfair trade practices complaint under Section 301 of the 1974 Trade Act fizzled out in 1983 after SIA's board of directors split over the wisdom of going this route in February and then in July postponed consideration of legal action, citing the "favorable results" U.S. trade negotiators had achieved in bilateral discussions to improve American access to Japan's semiconductor market.

Interest in an unfair trade practices complaint against Japan revived this year along with the deepening industry slump. A number of SIA member companies, however, still had reservations about filing a 301 petition. Moreover, semiconductor executives remained split on what action the Reagan administration should take if Japan did not eliminate its alleged unfair business practices. Industry sources report that merchant manufacturers generally pressed for quotas on U.S. imports of Japanese-made integrated circuits -- a position vigorously opposed by International Business Machines Corp. and other computer makers that belong to SIA. At a meeting earlier this month, the association's board voted -- after a debate described as heated -- to file a 301 complaint but to drop quotas as a recommended option.

The unfair trade practices complaint SIA filed with the office of the United States Trade Representative June 15 seeks White House intervention on two fronts: to stop allegedly predatory pricing by Japanese semiconductor makers in the United States and to help American semiconductor manufacturers crack the Japanese market, where, it is claimed, U.S. sales have never exceeded 10 or 11 percent of consumption for any sustained period because of an evolving set of barriers. SIA claims that the major obstacle today to American suppliers attaining a position in Japan more in line with their international standing is the structure of the market itself. The biggest Japanese customers for semiconductors are also the leading producers of these devices, the trade association notes, adding that these vertically integrated firms have a collective interest in buying Japanese.

The SIA petition, which the Trade Representative's office must accept or reject within 45 days, outlines three ways in which the president might exercise the broad authority Section 301 gives him to counter allegedly unjustifiable or discriminatory trade practices of other countries at home, in the United States or in third markets. Unless their access to the Japanese market improves quickly, U.S. semiconductor makers suggest that the Reagan administration start an unfair trade practices proceeding under the General Agreement on Tariffs and Trade (GATT). To stop what they claim are the illegal pricing policies of their Japanese competitors in the U.S. market, American makers propose two options for presidential consideration: a Justice Department investigation into whether Japanese suppliers have violated antitrust law by engaging in predatory pricing and a Commerce Department cost-price model of Japanese semiconductors that would trigger antidumping investigations if there were indications of U.S. sales of Japanese-made chips at less than fair value.

The semiconductor industry's decision to go the trade-complaint route after rejecting this course of action three times in recent years raises an intriguing question: how did supporters of legal proceedings against Japanese makers finally win the backing of reluctant SIA member companies for an

industry-initiated complaint? Current market conditions certainly provided powerful ammunition, but this is obviously not the first time American manufacturers of semiconductors for the merchant market have been caught in a slump that shows no signs of ending quickly. What apparently made the difference this time were the ambitious capital spending plans of Japanese semiconductor producers in a market already plagued with overcapacity.

Semiconductor makers in both the United States and Japan went on an investment spree during the 1983-84 boom. This new capacity started to come onstream just as demand began to weaken, putting enormous pressures on prices. With orders continuing to slump in this country, American companies have cut their 1985 plant and equipment budgets. So have Japanese suppliers -- but by a much smaller margin (see accompanying table). For U.S. semiconductor producers and customers, this situation raises the specter of a crippling chain reaction. Japanese makers anxious to sell the output of their new factories will have little choice but to dump commodity products like RAMs on the U.S. market. American companies will be forced to the sidelines, first in RAMs and then in other product lines as the profits needed to finance ever-increasing research and development costs and capital spending requirements dry up. Increasingly, this scenario goes, U.S. computer manufacturers and other big semiconductor users will become dependent on Japanese companies that are also their competitors in end-product markets for outside supplies of chips.

Capital Spending by Japan's Major Semiconductor Makers

(in billions of yen)

	FY 1981	FY 1982	FY 1983	FY 1984	Planned FY 1985
NEC Corp.	Y41.0	Y48.0	Y67.0	Y140.0	Y140.0
Hitachi, Ltd.	28.0	41.9	70.0	130.0	130.0
Toshiba Corp.	20.0	32.0	97.0	148.0	120.0
Fujitsu, Ltd.	33.0	43.3	59.0	125.0	100.0
Matsushita Electronics Corp.	22.0	10.0	23.0	110.0	100.0
Mitsubishi Electric Corp.	13.0	23.0	35.5	70.0	70.0
Sharp Corp.	10.0	11.8	20.0	35.0	40.0
Tokyo Sanyo Electric Co., Ltd.	12.3	9.0	12.0	31.5	46.0
Oki Electric Industry Co., Ltd.	12.5	14.0	14.4	36.4	32.0
Total	191.8	233.0	397.9	825.9	778.0

Source: Nihon Keizai Shimbun surveys

Susan MacKnight

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The views expressed in this report are those of the authors and do not necessarily reflect those of the Japan Economic Institute.